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RESTAURANT BUSINESS

Company of the Year

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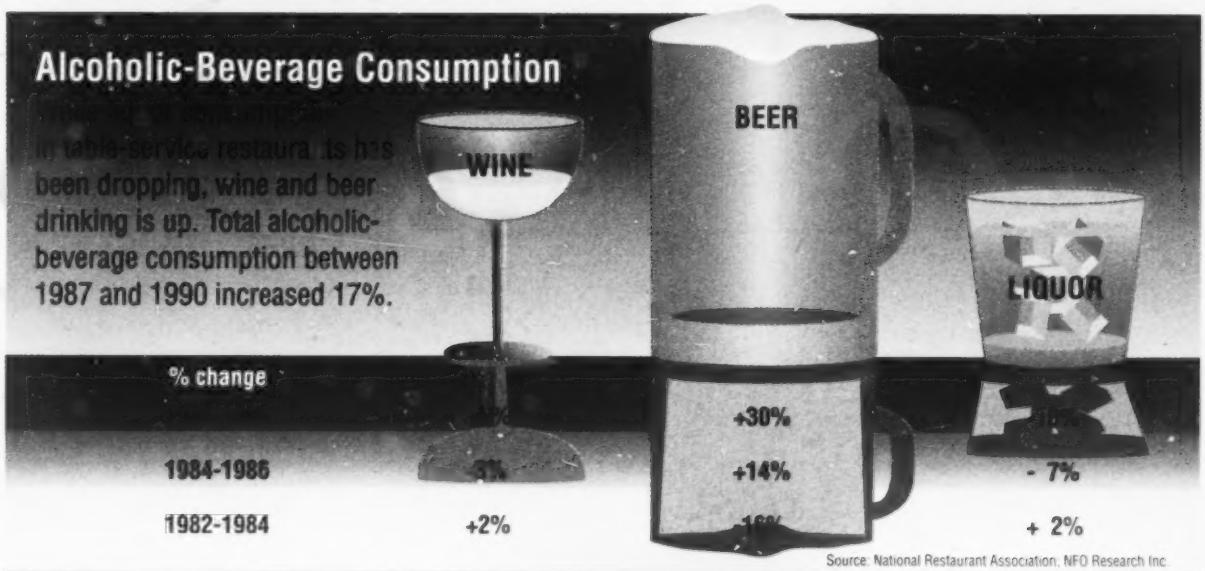
BUSINESS BAROMETER

Alcoholic-Beverage Consumption

In table-service restaurants it has been dropping, wine and beer drinking is up. Total alcoholic-beverage consumption between 1987 and 1990 increased 17%.

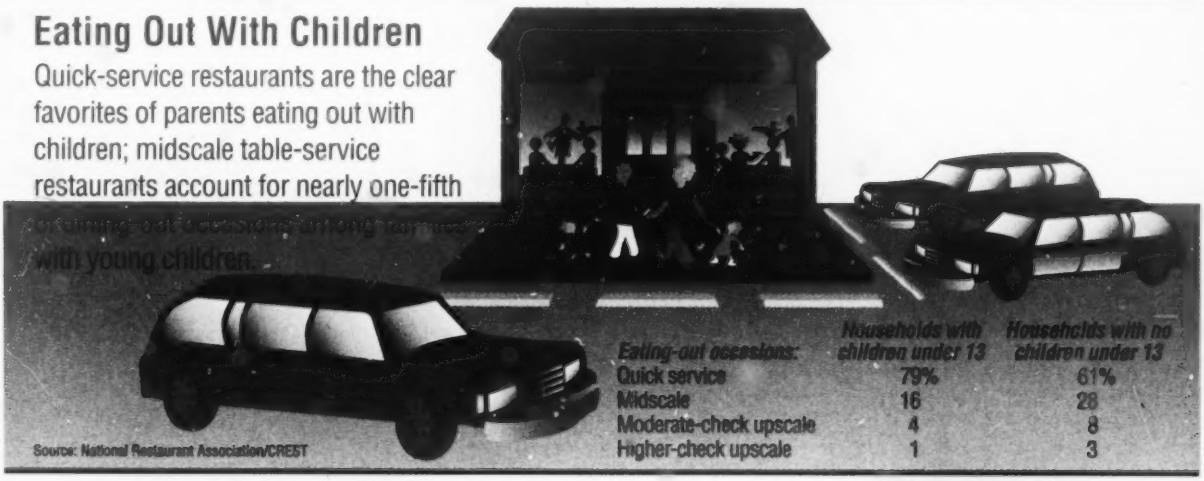


% change	WINE	BEER	LIQUOR
1984-1986	-3%	+14%	- 7%
1982-1984	+2%	+30%	+ 2%

Source: National Restaurant Association, NFO Research Inc.

Eating Out With Children

Quick-service restaurants are the clear favorites of parents eating out with children; midscale table-service restaurants account for nearly one-fifth of eating-out occasions among families with young children.



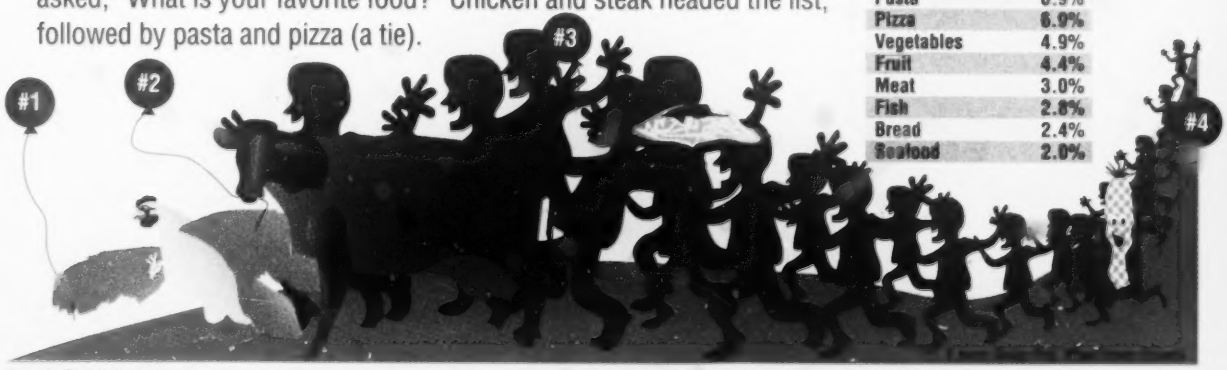
Eating-out occasions:	Households with children under 13	Households with no children under 13
Quick service	79%	61%
Midscale	16	28
Moderate-check upscale	4	8
Higher-check upscale	1	3

Source: National Restaurant Association/CREST

Americans' Favorite Foods

In a recent Gallup Poll, a random sample of American adults were asked, "What is your favorite food?" Chicken and steak headed the list, followed by pasta and pizza (a tie).

Top 10 "favorite foods"	
Chicken	10.0%
Steak	9.4%
Pasta	6.9%
Pizza	6.9%
Vegetables	4.9%
Fruit	4.4%
Meat	3.0%
Fish	2.8%
Bread	2.4%
Seafood	2.0%



Charts by Peter K. Niceberg

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Reprints of the **1991 RESTAURANT GROWTH INDEX** and **1991 MAJOR FORCES IN FRANCHISING** are available for $7 per copy. Direct inquiries to Editor Scott Allmendinger, *RB*, 633 Third Ave., New York, NY 10017.

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COVER STORY THE LEGAL JUNGLE. The costs of workman's compensation are skyrocketing. Neoprohibitionists are clamoring for lawmakers to implement DWI enforcement. Mandated health insurance options loom as an expensive headache. Social security and unemployment taxes on tips are putting the squeeze on profits. What's a restaurateur to do? This article covers all of these issues in-depth and will offer operators solutions for getting through the mire of legal mumbo-jumbo and how to cope.

MARKET SEGMENT REPORT FOOD-TO-GO. The range of menu choices keeps expanding, especially in delivery where major chicken chains, Chinese delivery enterprises, and other contenders are joining the picture. Third-party delivery companies are continuing to grow. Meanwhile, the working public is eating more often at their desks; one of the fastest-expanding markets for take-out and delivery is the office lunch.

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BK Hot Line Gets Results

At Burger King, customers no longer have to ask for ketchup or mustard. It's now company policy for employees to automatically hand out condiments with every order.

The new policy is in response to complaints the Miami-based chain received on a toll-free consumer response line introduced two years ago. Phone operators man the line around-the-clock, fielding an estimated 4,000 calls a day—approximately 38% from dissatisfied customers.

"We can resolve 98% of the complaints while the customers are on the phone, so we feel like we're recapturing sales we might have lost to another chain," says Michael Evans, a company spokesman.

Burger King obviously takes the calls seriously. For example, consumer feedback was one reason the chain reduced the calories in its BK Broiler and started cooking french fries in vegetable oil. It's also a key reason the chain now uses recycled bags in all its restaurants.

"When we tested the bags in 50 stores, positive calls were coming in so fast that we started using the bags chainwide within six weeks," said Evans. "A national rollout like that would normally take a few months."

Negative calls have prevented national rollouts, as well. For example, hot-line callers responded with mixed feelings towards a credit-card test in Tampa, FL, units, so Burger King executives decided not to introduce the program nationwide.

–Don Nichols

Burger King CEO Barry Gibbons takes a turn on the chain's consumer hot line, which gets 4,000 calls a day.

THE IHM&R SHOW The 76th annual Intl. Hotel/Motel & Restaurant Show will be held Nov. 9-12 at the Jacob Javits Center in New York City. New hospitality products will be showcased; Canada will be the featured "guest nation."

Sales Flat, Net Up (Huh?)

Due in part to new strategic food- and labor-cost saving techniques, Dallas-based Southwest Cafes Inc. doubled its net income for the fourth quarter in fiscal 199' from 1990's $226,000—even though the company's sales remained flat.

Specification changes and a new menu and management system accounted for half of the 1.5% food-cost decline. According to chief financial officer Gary W. Coder, lower ingredient costs (already on the rise again) accounted for the rest. Cheese prices, for example, hit a 12-year low of $1.26 per pound, saving the parent of more than 90 Tex-Mex restaurants $420,000 last year.

To control labor costs, the company changed the way it measures employees and began scheduling according to computer-program recommendations. "We shifted measuring labor management performance from reporting labor as a percentage of sales to managing labor as a cost per guest," Coder explains. "In other words, we track the number of guests per labor hour or the number of minutes per guest. This shifted the corporate mentality to managing on a per-guest level."

Combining this thinking with a computer scheduling system that was installed in half of company restaurants at a cost of $10,000 per store, Southwest Cafes reschedules every employee every day.

The effort has eliminated waste by using 7% to 12% less hours than in previous years. Total labor costs decreased 1.5%.

As an additional benefit, units can use the program to predict traffic up to six months in advance, allowing managers to make changes before predicted profit-margin thinnings occur.

–Rona Feldman

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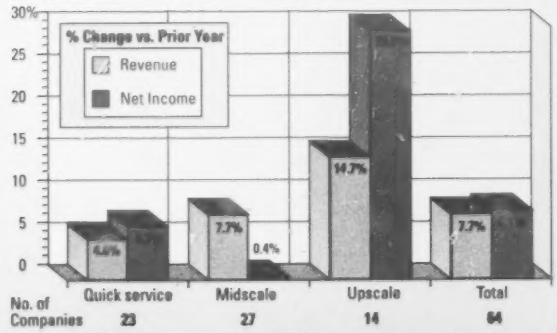
Public Restaurant Companies 2nd Quarter 1991



Revenue and net income were up slightly at most quick service and midscale restaurant chains during the second quarter. Thanks to 50%+ increases in net income by Chili's, Ark, and Morrison's Specialty Restaurants, net income rose sharply for the upscale segment.

SOURCE: Technomic Inc.

CHART BY SHAI FANG

FAMILY

MARKET SEGMENT REPORT

The focus is on strengthening existing units.

By Ralph Raffio

In the throes of a national recession, the nation's leading family restaurants are doing what they can to stay a step or two ahead of the competition. Unfortunately, for a category as broadly based as this one is, competition for the family dining-out dollar can be vast and—in the case of rival fast food especially—even quite ruthless. Family dining is, after all, largely driven by value. And there's nary a restaurant company around these days that isn't doing its best to capture family diners by delivering as much value as possible.

Having shown little growth recently either in units or in market share, practically all the focus in this market segment is now being devoted to strengthening existing operations. Though there is indeed some new unit development in evidence, most notably at Shoney's Restaurants and Cracker Barrel Old Country Stores, it has become increasingly apparent that menu development, marketing, and good service are the real keys to family restaurant operators' plans, which they hope will support them well throughout the coming decade.

Nowhere is this more apparent than at Denny's. The nation's largest chain of family restaurants has been holding steady at about 1,300 units, but there's been a lot of change within the system nonetheless—change designed to make existing Denny's restaurants more competitive in their respective markets. Parent TW Holdings Inc., based in Spartanburg, NC, has been revamping its family restaurants since it acquired them in 1987. An ongoing remodeling program, for instance, saw 140-plus restaurants getting a face-lift last year, at a cost of about $150,000 per restaurant. Remodeling includes landscaping and other exterior work, as well as interior additions such as new wallpaper and ceiling fans. According to the company, remodeled restaurants are showing sales increases of about 10%.

Other things are happening at Denny's as well, and all are designed to further bolster revenues at existing restaurants. In 1990, three major programs were rolled out systemwide—the 10-minute guarantee; Denny's Til Dawn;

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Country Kitchen is promoting its Sweet Memories line. Priced at $1.99, the desserts mix name brand snacks with ice cream.

FAMILY

MARKET SEGMENT REPORT

and a complimentary birthday meal promotion. All occurred on the heels of the chain's revamping its menu format to include color food photographs—a vastly improved, more marketing-savvy technique when compared with Denny's old type-only menu.

With a keen eye on fast food's ever-widening menu options and promotional activities, Denny's 10-minute service guarantee at breakfast and lunch became a permanent program at all Denny's restaurants last year. First tested in 1989, the program provides free meals if diners do not receive their orders within 10 minutes of placing them. Providing the guarantee is Denny's way of attracting customers who would otherwise frequent fast-food restaurants when their time to eat is short, which is usually the case during the breakfast and lunch meal periods. Servers use stop watches to track the time it takes for a meal to be prepared and served.

Denny's Til Dawn represents the chain's attempt at strengthening its late-night business, specifically the hours between 10 p.m. and 5 a.m. During those hours Denny's regular all-day menu is available, of course. But an additional half dozen or so entrees are also in evidence. Priced in the range of about $3 to $8, the late-night offerings are not as price sensitive as daytime offerings, largely because late-night customers are a bit less price sensitive themselves. The Denny's Til Dawn program is, in fact, management's attempt at picking up some business from competing casual-theme operators. Radio spots support the late-night dining program, as the medium is best suited to attract those people who are out for the evening and usually in their cars.

Family dining is driven largely by price/value.

Shoney's offers a 24-piece shrimp dinner for $4.99.

BIRTHDAY PROMOTION After a 250-unit test, Denny's free birthday meal promotion has also become a permanent fixture at all the chain's units. Available at lunch and dinner, the program offers free meals to those who can prove it's their birthday. Since the birthday celebrant is usually accompanied by friends or family, Denny's free meal offer draws new business every day of the year.

Denny's has been performing well under TW Holdings. Revenues were up 10% last year, to $1.4 billion, and operating income rose a whopping 30%, from $101.7 million in 1989 to $131.8 million in 1990. Both the chain's average check (now $4.14) and customer traffic were up 4.1% last year. Where expansion is concerned, it's unlikely that the debt-burdened TW Holdings will soon be able to develop new restaurants. Instead, management will continue remodeling restaurants and seeking franchisees to expand the Denny's chain. Last year, in fact, Denny's saw a net increase of 29 new franchised restaurants within the system.

Speaking of franchising, Shoney's Restaurants, the family restaurant division of Nashville, TN-based Shoney's

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Inc., hopes to buck the prevailing trend of slow expansion and show significant growth over the next five years. But due to a $700 million-plus recapitalization three years ago, the still debt-laden operator is relying on franchisees to open new restaurants and new markets.

Now at 760 family restaurants, Shoney's has indeed been adding new units to the fold as of late. Forty new family restaurants were added last year, nearly two thirds of which were franchised, and the company hopes to see at least 50 more restaurants open next year, probably more than that. With that sort of new unit expansion on the board, Shoney's would be the fastest growing family chain around—which is precisely what CEO Leonard Roberts would like to see.

With an average restaurant generating about $1.5 million in annual sales, Shoney's units outpace Denny's unit sales by about $300,000. According to Shoney's, newly developed restaurants (which cost more than $1 million to build) are doing much better than that, at about $1.9 million in revenues a year. Based upon that figure, Shoney's sales-to-investment ratio for restaurants opened during fiscal 1990 was 1.8, an extremely attractive performance compared with the industry overall.

Shoney's marketing vice president, Jeff Sowell, says that there's more than just unit expansion on the company's mind, however. For instance, Shoney's is now readying a new menu rollout, just one year after the chain had its last menu change. Items that are usually added to the Shoney's menu are those which have been successfully promoted at least a couple of times. Possible additions to the chain's menu this time around are a 24-piece shrimp dinner priced at $4.99, and a chicken stir-fry dinner for about $5.99.

"It's very important that we keep the menu fresh and current," says Sowell. "After all, it's our most important marketing tool, and we can't afford to let it get stale."

IHOP's salad line is aimed at expanding out of the breakfast daypart.

For about a year, Shoney's restaurants have been offering an all-you-can-eat seafood buffet on Friday and Saturday nights; in fact, the buffet began as a periodic promotional program. For an average price of $8.99, the seafood buffet offers shrimp and other fish items, along with an all-you-can-eat salad bar. The seafood buffet is not a surprising move for Shoney's, however. After all, in the early 1980s Shoney's was a leading force behind popularizing the all-you-can-eat breakfast buffet. Even today, in fact, the breakfast buffet generates about a third of Shoney's sales.

Several chains feature all-you-can-eat buffets.

"Value is a key element to this business," says Sowell, "and we think the buffets represent a tremendous value."

Asked whether Shoney's views casual-theme restaurants as a direct competitor, however, Sowell says he views the chain more narrowly than that. "Our direct competitors are restaurants like Denny's," says Shoney's marketing

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MARKET SEGMENT REPORT

chief. "They're not restaurants like Chili's. The additions that we're making to our menu are to keep our restaurants fresh, not to go after new markets."

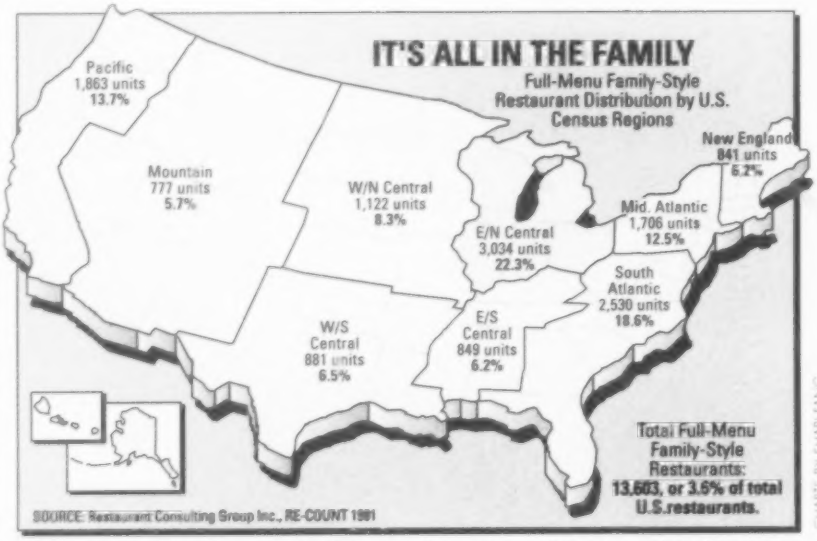
Indeed, Shoney's continues to stress its family-style roots. Like a few other family restaurant chains, among them Denny's, Perkins Family Restaurants, and JB's Restaurants, Shoney's is in the midst of testing pie shops in its restaurants. Now being tested in about 10 company stores and seven franchised outlets, Shoney's pie shops offer fresh-baked pies for take-out, priced $4.99 to $6.79. Sowell says that it's still too early to tell whether the pie shops will be rolled out systemwide, however. "We're evaluating sales," he says. "It's still in the concept stage."

When former Arby's chief Leonard Roberts joined Shoney's as CEO last year, he made it clear that building a national presence was key to his plan. Shoney's family restaurant division, says Roberts, can be a national powerhouse within five years. There's a lot riding on the family restaurants, too.

Quality service is the segment's edge over fast food.

They accounted for 47% of Shoney's Inc.'s revenues last year, and that equation isn't likely to change much anytime soon.

Next to Shoney's, about the only big family restaurant chain opening many new units nowadays is Cracker Barrel Old Country Store. The Lebanon, TN-based operator runs stores that are part restaurant and part gift shop. Having opened 18 new restaurants last year on a base of just 88, the company plans to continue its growth by adding another 21 units this year. Recently a unit opened in St. Louis, the first time Cracker Barrel has crossed the Mississippi. The chain will add yet another new market this year, Wisconsin. Practically all Cracker Barrel stores are located on or near interstate highways; over half the chain's customers are travelers. So tuned into the needs of the traveling public is Cracker Barrel, in fact, that a recent addition to the restaurants was a diaper-changing station in women's rest rooms.



CHARTS BY SHARI FANG

TOP OF THE HEAP. Cracker Barrel's current stable of 110 units may not bring it anywhere near the size of other big family chains, but with unit volumes now averaging over $2.9 million, the Southern chain is the hands-down leader in unit sales. No other chain in the family market segment even comes near Cracker Barrel. Marie Callender's and Bakers Square are close, with average annual unit volumes of $1.6 million.

"We've been very fortunate," says Cracker Barrel's marketing vice president, O.E. Philpot.

Fortunate is not quite the word that comes to mind regarding Cracker Barrel, but smart might be. The Cracker Barrel concept, which melds a down-home restaurant with reasonably priced gifts for tourists, seems the perfect stopping place for travelers. In fact, very little about the concept has been changed for some time. Even now, while other family restaurant chains are moving toward the pie shop concept inside their units in order to bolster sales, Cracker Barrel has no such plans in mind. (The chain does, however, offer whole pies for sale, and those are baked on the premises.) Cracker Barrel has also eschewed the all-you-can-eat buffet in favor of an all-table-service operation.

Like many of its peers, Cracker Barrel was once known for its breakfasts. But that has changed quite a bit. In fact, Cracker Barrel today is credited with having developed a solid business across all three dayparts, and for a family restaurant chain it is particularly strong during the dinner period.

Cracker Barrel's menu—which has come to include grilled fish and chicken tenders, lunch salads, and complete dinner plates for about $5—doesn't change often. Instead, managers are allowed to add daily specials on a unit-by-unit basis, depending on what is available locally. Marketing and promotional efforts tend to be confined to the units, relying on posters and table tents. Gift shop items account for a full 20% of revenues.

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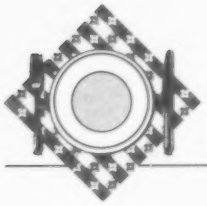

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MARKET SEGMENT REPORT

"The price and the value is very good and very competitive, we think," says Philpot. "A dinner plate with meat, two vegetables, and bread for $5.19 is right in line with fast-food prices."

Glendale, CA-based Internation-al House of Pancakes is among those family restaurant chains whose primary focus is bolstering performance at existing units. Though the company opened 14 new restaurants last year, it also closed 13 older models, netting the chain just one new restaurant in 1990.

"Our whole strategic direction today is based on generating more profit at the unit level," says Steve Pettise, marketing vice president for IHOP. "It's a real squeeze out there today." In order to assist IHOP franchisees, the company stresses cooperative buying programs and other efficiencies to lower costs, and it has gone forward with a menu consolidation plan. "Nothing is sacrosanct," says Pettise. "If something doesn't work well or if a menu item isn't doing what it's supposed to do, we'll make a change." Indeed, IHOP's menu, which at one point included some 150 items, has been culled to around 105 offerings.

Culling is not all that's being done to the IHOP menu, however. In fact, a couple of important things are being added throughout the chain. IHOP is now in the middle of rolling out Belgian waffles. Currently there are about 175 IHOP restaurants that offer the new item, and the rollout should be completed by the first quarter of next year. There are two types of Belgian waffles: One is buttermilk-based, the other is called Harvest Grain and Nut. A breakfast and late-night item, the waffles are priced from $3.49 to $3.79 plain; fruit, ice cream, and other toppings are extra.

Dinner continues to be a focus as well. IHOP has expanded its Homestyle Menu to include 12 items. Executed on a regional basis, Homestyle meals can include meat loaf, pot roast, chicken pot pie, and pork chops, and are priced between $4.99 and $6.99. A new baked chicken dinner has also been tested and is now ready for national rollout. All dinners are served with soup or salad, potato, vegetable, and a roll. Franchisees are also given the flexibility to add regional dishes.

Remodel programs are upgrading chain images.

Dinner, however, remains a relatively modest portion of IHOP's business, accounting for anywhere from 15% to 20% of revenues. And even then, as much as 60% of dinner sales are likely to be from breakfast or lunch items. "The typical dinner here consists of dad getting a steak, mom a salad, and the kids pancakes," says Pettise. IHOP is just now, in fact, rolling out a separate children's menu with offerings for all

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Country Kitchen's new prototype is designed to look like a 100-year-old farmhouse.

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MARKET SEGMENT REPORT

three dayparts. And it continues to attract children with its popular pancake characters, which are either sold or given away free at the restaurants.

Having entered the year with around 490 units, IHOP hopes to reach a total of 503 restaurants by the end of 1991. Already 10 units have opened this year. IHOP's current design is about twice the size of its old A-frame building, and consists of about 154 seats. By the end of this year, says Pettise, about 100 IHOP restaurants will be of the newer, larger variety.

CYCLES OF CHANGE. At Country Kitchen International, owned by Minneapolis-based Carlson Co., the menu has been changing rapidly. The 250-unit chain goes through two menu cycles a year, and adds and subtracts a half dozen items per cycle. In the past two years, a full 50 menu items have been changed.

Oftentimes, however, a menu change can mean offering the same item in different ways. Chicken, for instance, was once prepared fried only, though now a complete line of chicken dinners is offered.

For promotional items, Country Kitchen has been leaning hard on desserts, specifically its Sweet Memories line. Priced at $1.99, the Sweet Memories desserts combine well-known snack products mixed with ice cream. Having started with four items in the line, the chain will add another eight this year, largely as holiday promotions.

Not neglecting pancakes: IHOP's new line of syrups.

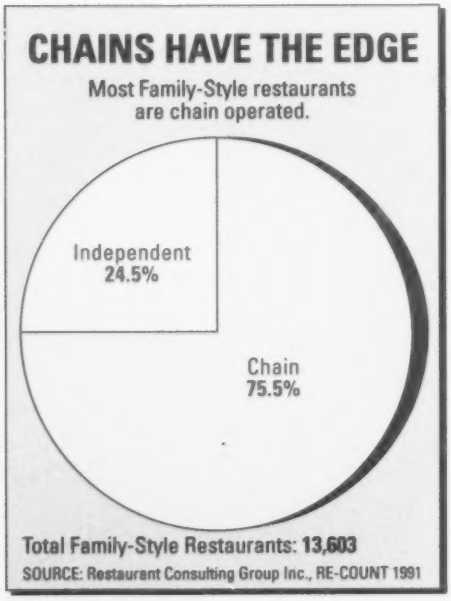
Country Kitchen, like a lot of other family restaurants, would like to see even more of a shift away from its breakfast stronghold. Marketing vice president Jon Ostrov says that, though breakfast once accounted for half of sales, the chain hopes to reach an even breakdown between all three meal periods this year. Country Kitchen hopes to do this by offering more trendy items like fajitas, "things that don't say coffee shop," says Ostrov.

Country Kitchen already prices its dinners as high as $8.95, though Ostrov says that the company is working on some items that could break the $10 barrier. The chain has also embarked on a remodeling and expansion program aimed at lessening the restaurants' identification with coffee shops. This past summer the first new model opened in New Jersey. A modular design that can be expanded as needed, the restaurant is designed to look like a 100-year-old farmhouse.

MARRIOTT EXIT. By the time Marriott Corp. finalizes its sale of 120 family restaurants to Irvine, CA-based Restaurant Enterprises Group Inc., there will be only 100 Marriott-owned Big Boys left, the majority having earlier gone to Elias Brothers, a longtime Big Boy operator. All of Marriott's Big Boys are in the Northeast, and all are for sale. Once they're sold, Marriott will have finally completed its exit from family dining.

Jon R. Jameson, vice president of marketing for Marriott Family Restaurants, says that the Northeast (and to some degree the Midwest) is a tougher audience for family restaurants. "I think that we need to take the concept out of the family restaurant category and bring it closer to the image of a diner," says Jameson of the category's ability to grow in the Northeast.

Whether or not this is so, now does not appear to be the time for expansive growth in the family sector. On the other hand, when the economy does improve, family restaurants will be well poised to capitalize on their highly developed reputation for value. RB


CHAINS HAVE THE EDGE
Most Family-Style restaurants are chain operated.
Independent 24.5%
Chain 75.5%
Total Family-Style Restaurants: 13,603
SOURCE: Restaurant Consulting Group Inc., RE-COUNT 1991